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2009 State of the State

General Themes

This speech presents an ideal opportunity to set the stage for the next three years using broad visionary themes that:

- Speak to the heart of what Mississippi is and can be, especially in perilous economic times when we are not immune to national and global forces; and,
- Identify and emphasize the conservative Republican principles under which government must be guided – fiscal honesty and good stewardship; tending to “people” priorities such as education and health care; and, governmental reforms in organizational structure, taxes and fees for services.
- This is a time to embrace the principles of good government.
- This is a time for visionary leadership to build a leaner, more efficient government that is ready to soar and better serve the people when the economy turns up again.

Under the above general themes, some specifics can be spotlighted:

- Mississippi has been blessed with a period of strong growth because we’ve made good decisions and enjoyed a good economy

- Economic development and job creation; set historical highs for number of Mississippians working

- Filled the rainy day fund to its authorized level, 7.5% of budget

- Saw per capita income growth of 18.2% over four years, as documented by the U.S. Bureau of Labor Statistics

- Mississippi recorded the third highest rate of growth in per capita income in the nation for 2007

- Good stewards of taxpayers' money

Some of our neighbors feel the same kind of pinch we do

- As bleak as our situation seems, many of our sister states face even more difficulty. I believe this is at least partially attributable to the extra momentum our economy had before the national downturn began. Our revenue held up particularly well until December; but, while our revenue held up longer than most states, we are not immune to the effects of a national, much less international, recession.

- *Alabama* - In Alabama, Governor Riley ordered spending cuts in December. Tax collections for Alabama's \$6.36 billion education budget will fall almost \$800 million short. Governor Riley will drain the rainy-day account for schools of all \$437 million to ease the effects of a 12.5 percent shortfall. That still leaves \$353 million in cuts school systems will have to make during the year. On December 15, Governor Riley also announced plans to cut this year's General Fund spending by \$200 million, a cut of about 10 percent.

- *Florida* - In Florida, on June 23, 2008, Governor Crist notified all agencies that the state would withhold up to four percent of their available appropriations. Florida also began a special session yesterday to cut \$2.315 billion from its budget. The state took in \$100 million less than anticipated in just the past month. The Legislature is considering trimming aid to schools, borrowing money, taking cash surpluses from state trust funds and boosting fees on everything from traffic tickets to court proceedings. This is the third time in 10 months the state will make a major round of cuts in the budget. The current state budget of \$66.3 billion is already about \$6 billion less than it was a year ago, the largest year-to-year drop in state history.

- *Georgia* - In Georgia, Governor Perdue has cut Georgia's operating budget by six percent, with education seeing a two percent cut and Medicaid seeing a five percent cut.
- *Louisiana* - Governor Jindal outlined how he proposed to cut \$341 million in necessary spending reductions to meet the state's Fiscal Year 2009 certified revenue shortfall. Louisiana's departments were asked to identify efficiencies and cost-saving measures. For many departments these savings came as a result of freezing operational expenses in travel, supplies, acquisitions, operational services and professional services, and halting or delaying the implementation of certain new initiatives.
- *Tennessee* - In Tennessee, Governor Bredesen warned last month that starting July 1, universities will receive 10 percent to 15 percent less than they do now. The Tennessee State Funding Board, which establishes revenue estimates for the state, estimates for the current year a shortfall of between \$946 million and \$1.084 billion in total state taxes, and \$885 million and \$1.023 billion in the General Fund. Looking to next fiscal year, the Funding Board estimates a loss of between \$712 million and \$1.001 billion. Governor Bredesen is also asking state department heads to shave their costs by 20 percent - a number that also has risen from three percent earlier this year.

Indeed, the national landscape is already haunted by the ghosts of budgets past and the reality of unmet projections..

The country is currently undergoing the most difficult economic situation in several generations and no state is immune to the results of this national economic downturn.

The Center on Budget and Policy Priorities said on December 23rd that at least 44 states are facing shortfalls in their budgets for this year and at least 38 states anticipate deficits for fiscal year 2010 and beyond. The Center reported that 14 states have already raised taxes or

taken other revenue raising measures to make up their shortfalls.

In the area of health care, at least 19 states have already proposed or implemented cuts affecting low-income children's - or their families' - eligibility for health insurance or reduced their access to health care services.

New York plans to cut \$1 billion from hospitals, nursing homes and health care providers; California is proposing the removal of more than 100,000 children from their health care program; Washington state is considering dropping dental coverage for poor adults; and Florida plans to eliminate hearing aides, eyeglasses and prescription drugs from the state's Medicaid program.

At least 20 states are cutting K-12 and early childhood education and 26 states are cutting higher education funding. Rhode Island and New York are implementing mid-year tuition hikes on students and Washington state officials are considering slashing school funding by \$1 billion. Hawaii lawmakers are proposing to reduce education spending by closing public schools for six days and requiring teachers to work without pay for four days out of the school year. In California, Governor Schwarzenegger proposed cutting funding for K-12 and community colleges by \$2.5 billion. In New York, Governor David Paterson proposed cutting \$700 million from education, and Michigan has eliminated a college scholarship program.

Some of the cuts in other states outside the areas of education and health care are just as serious.

The Center reports that 34 states are reducing their state workforces and governors in 12 states have called for across-the-board cuts. Massachusetts is considering \$1 billion in public safety cuts that include cutting funding for the Massachusetts Sex Offender Registry Board; and New

Hampshire is suspending jury trials for a month to save the state money.

What can we do here in Mississippi to weather the storm

- *Budget:* Adopting a balanced budget that includes prudent spending reductions; appropriate revenue increases and responsible use of only a portion of the Rainy Day Fund, leaving a significant balance to alleviate future revenue shortfalls.

- *Bonds:* When the economy is bad, we must resist the temptation to resort to borrowing money, particularly borrowing money to pay for recurring expenses. Only support a bond bill for worthwhile projects with a sum no greater than what the state is currently paying off (about \$200 million).

- *Increased service fees:* While we are not opposed to reasonable increases which realign fees with surrounding states, we do not support raising fees as a means to raise state revenue.

- *Rainy Day Fund:* My budget proposes using \$84 million of the Rainy Day Fund (about 22% of its current balance). That leaves about \$292 million to address any future revenue shortfalls in anticipation of two to four years of recession or slow growth.

There have been numerous reports regarding the intention of House members to tap into this fund at higher amounts than recommended in the EBR.

We must resist the temptation to deplete the rainy day fund so soon into the current recession; the state's savings account must last at least four years.

MEDICAID/HEALTH

Since 2003 we have saved millions in state dollars through prudent management and needed reform of the Medicaid program as follows:

- By maintaining slow growth in budget appropriations each year;
- By reducing the number of beneficiaries by 100,000 to approximately 580,000, in part, due to job creation and the transfer of the eligibility determination to the Division of Medicaid;
- By instituting the face to face recertification process in order to reduce Medicaid fraud and to ensure that those who qualify get the health care and other benefits to which they are entitled;
- By implementing a prescription drug service for beneficiaries, which in turn encouraged their use of generic drugs. Through this program, the state has cut prescription drug spending by more than half since Fiscal Year 2005, resulting in approximately \$95 million in state savings over the last four years. [FYI – Amanda used a multiplier of 24.5% to get the state savings.]

- *Provider assessments*: Hospitals must pay the \$90 million assessment that they initially proposed and have paid for years; it is not responsible to spend \$90M from the state's budget during an economic slowdown when this funding could be applied toward other critical areas, like education.

Many of you supported SB 2013 last year as the last best option, not the only option. Since GRA distribution models was a point of contention with hospitals, I am open to discussions on this issue and can support a viable alternative — if it produces \$90 million from hospitals paying their fair share.

TOBACCO TAXES

When I formed the Governor's Tax Study Commission, I said I would submit any tax increase they proposed. That is what I have done.

Policy Statement: Raising the tobacco tax should be about health policy and not about revenue creation.

My proposal makes that clear by: (1) proposing an equity payment be made by non-participating cigarette companies; and (2) proposing that smokeless tobacco be taxed on a weight based system. These two proposals eliminate what are, in effect, subsidies of some tobacco products.

However, it is important that revenue estimates from increased tobacco taxes be realistic and take into account reduced demand that results from higher prices.

Many states rolled the dice, so to speak, hoping increased cigarette taxes would solve their budget problems, only to lose the bet.

Forty-six states have increased their cigarette tax rate since 2000, but experience shows actual tax revenues often fall short of projections; only 16 states actually met their revenue goals.

Nine Southern states have raised tobacco taxes since 2000; Texas was the only state to generate more revenue than projected.

For example,

- Alabama raised cigarette taxes by 26-cents a pack, and revenue fell \$67 million short of projections;

- Georgia raised cigarette taxes by 25-cents a pack, and revenue fell \$63 million short of projections.
- Tennessee raised cigarette taxes by 42-cents a pack, and revenue fell \$62 million short of projections.
- Louisiana raised cigarette taxes by 12-cents a pack, and revenue was \$20.6 million short of projections.
- Arkansas raised cigarette taxes by 25 cents a pack, and the resulting revenue shortfall was \$10 million.
Further north,
- Maryland raised cigarette taxes by \$1 a pack, and revenue fell \$50 million short of projections.
- New Jersey fell short of projected revenues with all of its four tobacco tax increases since 2002. Revenue from the latest tax increase that led to the “tipping point” was 173 percent below the projected revenue the tax was intended to generate.

Several House members have already stated their support for a \$1 per pack increase; others have told my office they intend to remain opposed to any tax increase as a matter of principle.

Also, there have been media reports regarding Mississippi’s “lagging tobacco prevention efforts.”

The truth is, the \$10.25 million a year appropriated to the Department of Health for anti-tobacco advertising, marketing, cessation, and other programs and activities – funds once used illegally by the Partnership for a Healthy Mississippi – is five times what the state spends on tourism advertising.

It dwarfs the amount any Mississippi corporation spends on commercial advertising.

The \$10.25 million is about half of the total of \$20 million designated by the Legislature to the Department of Health for Mississippi's comprehensive anti-tobacco efforts, a huge commitment – especially in a down economy.

Mississippi should consider focusing more attention on ways to save our children from the scourge of illegal drugs, not just on anti-tobacco efforts.

EDUCATION

Dropout Prevention:

Mississippi now utilizes the dropout calculation process developed by NGA - two years in use

Dropout rate for class of 2006 - 17.6%. For the class of 2007 - 15.6%
(graduation rate 73.8%)

Each district has a dropout prevention plan

Superintendent Hank Bounds has a statewide plan - "On The Bus" -funded by State Farm - \$1.5 million

High School Redesign:

Currently in second year of a 5-year phase-in

Year one-funded at \$5 million - 14 school districts involved

Year two-funded \$8 million, plus \$5 million for vocational equipment; (\$13 million total) - 19 school districts involved

Year three (FY 2010 request is \$13 million)

AP Courses: "Result of UPGRADE)"

From 2004-2008 the total number of AP exam takers has increased by 102.7%; number of exams achieving a grade of 3 or better has increased by 38.7% since 2004

Since 2004 number of African-American takers has increased by 166.3%; Each school district is required to offer at least one AP course

Dual Enrollment:

MDE does not have any numbers on how many students are dual enrolled

Dual Enrollment is a big component of High School Redesign

K-12

-MAEP Funding: Hank Bounds has offered some ideas for reducing the original request of \$60.8 million

-High School Redesign: Fund through combination of state and federal funds

Community and Junior Colleges

- Workforce must continue to be a priority for our community and junior colleges.

- Increased training in the advanced manufacturing and energy sectors has been important to support the surge of jobs over the past five years in our state and across the Southeastern United States.

- Since I have been Governor, the state has competed and has been awarded over \$15 million in federal grants for

high skilled workforce training and entrepreneurship initiatives.

But as Medicaid rolls go up, pressure builds on the unemployment insurance program.

- In 2005, our state's Workforce Enhancement Fund, or the WET fund, was established and has been provided \$79 in additional workforce training money to our community colleges. As the unemployment trust fund is drained through increased benefits and claims, that money will no longer be diverted to workforce training.

- In tough economic times, we must keep our workforce sharp. I urge the Legislature to work to keep the WET fund whole. (NOTE-this might be an issue we save for 2010. Marie is getting data on when the fund will be drained - to see if we must address it in 2009.)

IHL

- Not a year we can increase IHL spending by the requested \$36 million; it's a worthy goal, but not possible this year

- Wish I could promise level funding from last year, but the reduction I've already ordered is probably smaller than the cuts that will actually be required

Complete this section with:

- Info about our unemployment rate 7.2% non-farm, seasonally-adjusted.

- While Mississippi isn't immune from national economic downturn, we are in some ways insulated, and must be more nimble to adjust to changing times.
- We must prepare our workforce to weather these difficult economic times so our state can bounce back faster than our neighbors and the rest of the country.

ENERGY

Mississippi can be a reliable energy provider.

The single guiding principle should be "more abundant American energy"

President-Elect Obama's nominee for Energy Secretary, Dr. Stephen Chu from California-Berkeley, has called for aggressive steps on climate change (translated: more regulation and higher energy prices). Back in September, immediately after the 2008 summer gasoline price spike and in the midst of high prices, Dr. Chu, in an interview with the Wall Street Journal, said, "Somehow we have to figure out how to boost the price of gasoline to the levels in Europe." (*Wall Street Journal* 12/12/08)

Europeans pay 2-4 times at the pump for gasoline as what we pay in the U.S.) When Americans were paying around \$4/gallon last summer, Europeans were paying over \$10/gallon for gasoline and diesel, primarily due to exorbitant fuel taxes.

Why would we want \$10 a gallon gasoline when \$4 a gallon gasoline nearly killed us?

Additionally, President-elect Obama stated that California "consistently ... has hit the bar" on environmental policy "and the rest of the country has followed" (*Wall Street Journal* 12/16/08).

Therefore, he chooses an energy/environment team that seems to be stacked with those who have called for environmental and energy policies emulating those of California. California's policies have resulted in the highest gas prices of the mainland states. Compared to Mississippi, Californians were paying about 25% more for gasoline than Mississippians, and last year, electricity rates in California were over 40% higher than Mississippi.

Is there anyone in this chamber tonight who thinks high gas prices are good for Mississippi or the country?

Each U.S. recession since 1970 has been preceded by oil price spikes. From January 2007 to early July 2008, the price of oil tripled. Subsequently, we recently learned that the U.S. officially entered recession in December 2007.

Due to rising gasoline prices, roughly \$1.9 billion more was spent on gasoline in Mississippi in the first eleven months of 2008 than in the first half of 2007.

If we assume that 75% of the money spent on gasoline would have otherwise been spent on other retail purchases, then there was roughly \$1.4 billion less spent on retail sales in Mississippi in 2008 than would have been spent with early 2007 gas prices.

This translates into a loss of sales tax to Mississippi's General Fund of roughly \$100 million dollars or about 2% of the General Fund due high oil prices.

Even though money spent on gasoline went up, there were 159 million fewer gallons of gasoline sold in Mississippi in the first eleven months of 2008 compared to 2007.

Because Highway construction/maintenance funds are generated by a tax per gallon rather than percent of sales, this translates into a fuel tax loss (funds for highway

construction/maintenance) of roughly \$28.6 million in the first eleven months of 2008 compared to 2007. The total revenue loss is roughly \$129 million.

Family impact example: As a rural state, many people in Mississippi commute. Suppose someone drives 100 miles per day back and forth to work in Mississippi (e.g. Brookhaven to Jackson - 25,000 miles per year). Suppose they get 20 miles per gallon. They use 25 gallons per week @ \$4/gallon equals \$100 per week. Double this to account for car payments or depreciation and the person is spending \$200/week for transportation. Now, suppose the person earns \$20/hour = \$800/week = \$40,000/year-not bad money in Mississippi. Of the \$800 earned each week, they probably get about 75% or \$600 after taxes and other deductions. Of this \$600 take home pay, they must spend \$200, or a third of their take home, for transportation. It takes over 1.5 days of work each week just to pay for their transportation. This is common in Mississippi when gasoline prices are \$4/gallon like they were last summer.

History tells us the economy functions better when energy prices are low. For the next generation, energy and our economy and our national security are going to be totally intertwined.

Our policies should support adequate, affordable, domestic energy.

From both a state and national perspective, if we want to have affordable energy, we need more of it.

My energy policy for Mississippi: more energy.

This economic issue isn't just for the country because we import more than sixty percent of our petroleum; but it's about every family in Mississippi including the many, many, many who can't pay four dollars for gas; who can't pay their electric bills; and when summer comes, their cooling bills;

as well as their heating bills during the winter. This makes a big difference in peoples' lives, and energy is something we need to address in a very, very serious way.

Because Economics 101 taught us that if you want the price of something to go down, the best thing to do is get the supply to go up. To provide jobs and be competitive, Mississippi must be a reliable energy producer.

America historically has been a country with abundant and cheap energy. And, we've had a cheap energy, abundant energy economy for the four hundred years since the Jamestown settlement was established. Now, whether it was wood, and then coal, oil, and gas, nuclear, whatever, in prior history, our comparative advantage or one of our comparative advantages has been a plentiful supply of cheap energy.

It's difficult today to increase supply as fast as demand is expected to increase.

We in the Deep South have been very glad to allow drilling in the Gulf, shallow and deep; Texas, Louisiana, Mississippi and Alabama.

In fact today, the Gulf of Mexico produces twenty-five percent of America's oil and gas while other coastal areas have made themselves off-limits to drilling even though the prospects are at least as good there as they are where America has in some people's opinions in the South, been sucking us dry for generations while they won't allow drilling even within a hundred miles of their coast.

The mindset that energy prices should go up and the U.S. energy sector needs more regulation is wrongheaded for Mississippi and the nation.

Less regulation and more domestic energy is the answer to long-term economic health, energy jobs, adequate supplies, and national security.

Mention the clean-coal plant in Kemper County – a billion-dollar investment in the kinds of new technologies that can help make Mississippi a reliable energy supplier.

- *Energy Infrastructure Development Loan Program*: I will ask you to consider legislation to create an Energy Infrastructure Development Loan Program. My request includes \$30 million bond authority. Loans will be made to local governments for public infrastructure improvements related to energy projects using Mississippi feedstock with a private investment in excess of \$1 billion. The county and/or city will use the increased property tax revenues to repay the loans to MDA, and the payments will be used for debt service on the bonds.

- *Reduce CO2 tax*: Support reducing the sales tax rate on purchasing manmade CO2 for enhanced oil recovery to same rate as what manufacturers pay (7% to 1.5%). No immediate financial impact and encourages carbon sequestration and EOR.

TRANSPORTATION

- *Bonds*: Generally, await the federal economic stimulus package before committing state money to new construction projects.

KATRINA UPDATE

- \$1.8 billion distributed in 3 coastal counties to about 27,000 households under the Homeowners Assistance Program, the first program of its kind.

- Fewer than 400 applications left to process under the Homeowner Assistance Program, and these, of course, are the most difficult with many complex components.
- We will finish this unprecedented Homeowners Assistance Program a year earlier than projections.
- Focus on low to moderate income housing construction in the next year with the small rental, long-term workforce, and public housing for low to moderate income families.
- These three programs total more than \$700 million dedicated to construction of low to moderate income housing stock.
- On track to produce more than 20,000 affordable housing units, which will leave the Coast with more than were there before Katrina.
- A soon-to-be-released independent housing study reveals that, through state, nonprofit and private efforts, more housing will exist by 2011 than there was before Katrina.
- The Mississippi Cottage program was successful, demonstrating a safer and better housing option in the aftermath of disasters; many communities have accepted these units as permanent dwellings.

Port of Gulfport

- Restoration of the Port of Gulfport was in our original request for Katrina recovery funds, and the revised plan has received acclaim from the community.
- Basically the largest economic development and job generator in Mississippi.

- Will create tens of thousands of new, good-paying jobs along the Coast, and even more jobs throughout the state.

Hurricane Trust Fund

All of the money in this fund is required for state matching purposes, so it's vital to keep this contingency fund intact.

- o Hazard Mitigation Grant Program: 25% match requirement
- o Global Match—have submitted projects (mostly private/casinos); awaiting FEMA's approval
- o Environmental Restoration— If Congress passes the environmental restoration grant program as currently drafted we'll need additional state matching funds of about \$211.6 million over 30 years.

MORE EFFICIENT STATE GOVERNMENT

Medicaid

Overhaul of the program - I present this in the context of making government more efficient and effective because it involves meaningful reform of a service on which hundreds of thousands of Mississippians depend.

- Although other states, notably Louisiana and Rhode Island, are currently implementing innovative ideas to cut costs in their Medicaid programs, any further reform in Mississippi is hampered by gross over-legislation of the Medicaid program.
- It is time for an overhaul of the statutes governing Medicaid.

- I will propose reforms to make effective service delivery the number one priority of the department by asking the Legislature to:
 - Appropriate a fixed amount for Medicaid's budget; and,
 - Grant the Division of Medicaid unfettered authority to adjust its rates, benefits and eligibility limitations in order to promote good health policy in Mississippi while also saving state dollars.

Coordinated Care: Part of our push to reform the Medicaid program will include a coordinated care initiative to address an anticipated influx in beneficiaries due to the economic downturn.

- This year I will propose a statewide Coordinated Care Program for pregnant women and children under one year of age, selected SSI populations, as well as targeted high cost beneficiaries.
- This initiative will improve access to medical care, the quality of health care, and promote efficiencies and cost-effectiveness of the program – all done without changing reimbursement rates for providers or the benefits package for our beneficiaries.
- *Privatization of driver's license process:* The Department of Public Safety is aware this is a priority. Commissioner Steve Simpson is moving forward on this.
- *Reform MDOT:* System for building highways must be guided by economic development and job creation.
- *State transportation plan:* Should be put together after the federal government has reauthorized the federal highway bill.

- *Maximum flexibility*, including saving money and delivering services more effectively, can be achieved by letting agency directors manage.

The Mississippi Department of Corrections is a perfect case.

- During FY 2004 total MDOC expenditures were nearly \$289.2 million, while housing and supervising 42,772 offenders.
- Beginning in FY 2005, at my request the Legislature permitted MDOC to move out from under the State Personnel Board in order to implement rigorous cost cutting measures totaling over \$20 million in permanent reductions.
- For FY 2009, MDOC's budget is about \$340.4 million, only increasing expenditures by 17.7% since FY 2004, while the number of offenders under its supervision has increased by 21.8%.
- Without the cost saving measures the FY 2009 MDOC budget would be more than \$366 million, while housing and supervising more than 52,000 offenders.
- With outstanding management, MDOC even implemented a much-needed salary increase for all correctional officers.

- *Health Insurance Exchange, Reduce Mandates in Health Insurance, Allow Purchase of Out of State Plans*: Our state has an unacceptably high rate of underinsured citizens. We need to make health insurance less expensive and more accessible. A good health insurance exchange plan passed

the Senate unanimously last year – needs to be enacted into law.

OTHER IDEAS

Many good ideas floating around the Capitol:

- Charter school legislation revisions
- Voter ID

This list is from the National Conference of State Legislatures as of October 2008. A total of 24 states require some sort of ID; there do not appear to be any states offering age exemptions, according to this roundup.

The following states request photo ID from voters:

Florida, Georgia, Louisiana, Hawaii, Indiana, Michigan, South Dakota

The following states request ID (no photo required) from voters:

Alabama, Arkansas, Alaska, South Carolina, Tennessee, Texas, Virginia, Arizona, Colorado, Connecticut, Delaware, Kentucky, Missouri, Montana, North Dakota, Ohio, Washington

- Transparency:
 - Open records for Legislature
 - Sunshine legislation (increased oversight of practice of hiring outside legal counsel)

Closing

A week ago, when this session convened at the historic, restored Old Capitol, I said people serving in the earliest days of our state faced the daunting challenge of carving out a place for civilization in what was then wilderness.

They faced hard choices and made sacrifices, and the people who sent them to Jackson to govern expected their very best.

We, too, face hard choices and sacrifices as we continue to build our state, even in this time of economic chaos.

It may get worse before it gets better.

There is no greater reason to make these sacrifices than to protect the future for our children, just as our ancestors did for us.

Families across our state face hard choices every day.

They expect their government to raise revenue not to feed its own insatiable fiscal appetite, but to furnish essential services at reasonable costs.

Just like each of those families, state government must live within its means.

That is our challenge, our duty; it is what the people expect of us.